

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name	County
Audit Date	Opinion Date	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)			
Street Address		City	State
			ZIP Code
Accountant Signature		Date	
Abraham & Gellray, P.C. Aaron M. Stearns			

**Township of Chippewa
Isabella County, Michigan**

FINANCIAL STATEMENTS

March 31, 2004

Township of Chippewa
Isabella County, Michigan
March 31, 2004
BOARD OF TRUSTEES

George Grim	Supervisor
Barbara Kowallic	Clerk
Jan Gill	Treasurer
Michelle Quakenbush	Trustee
Buhl Billsby	Trustee

Township of Chippewa

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Principals

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ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
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Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Township of Chippewa
Mt. Pleasant, Michigan

We have audited the accompanying general purpose financial statements of the Township of Chippewa, Isabella County, Michigan as of and for the year ended March 31, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Chippewa, Isabella County, Michigan as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The individual fund financial statements listed in the Table of Contents under Supplemental Financial Information are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Township of Chippewa, Isabella County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 4, 2004

GENERAL PURPOSE FINANCIAL STATEMENTS

Township of Chippewa

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

March 31, 2004

	Governmental Fund Types		
	General	Debt Service (1993 G.O. Bonds)	Capital Projects (Sanders Subdivision)
ASSETS			
Cash and cash equivalents	\$ 815,290	\$ 35,983	\$ 14,212
Investments	204,805	-	-
Special assessments receivable	-	28,275	-
Due from other funds	9,431	-	-
Fixed assets	-	-	-
Advances to other funds	38,005	-	-
Amount to be provided for retirement of long-term debt	-	-	-
TOTAL ASSETS	\$ 1,067,531	\$ 64,258	\$ 14,212
LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts payable	\$ 5,675	\$ -	\$ -
Accrued liabilities	7,763	-	-
Withholding payable	1,706	-	-
Deferred revenue	36,000	28,275	-
Due to other funds	-	-	9,307
Due to State	-	-	-
Due to individuals and agencies	-	-	-
Other accrued liabilities	-	-	-
Advances from other funds	-	38,000	-
TOTAL LIABILITIES	51,144	66,275	9,307
FUND EQUITY (DEFICIT)			
Investment in general fixed assets	-	-	-
Fund balance			
Reserved for public safety	38,976	-	-
Reserved for advances to other funds	38,005	-	-
Reserved for debt service	-	(2,017)	-
Unreserved			
Designated for capital expenditures	-	-	4,905
Designated for subsequent year's expenditures	107,565	-	-
Undesignated	831,841	-	-
TOTAL FUND EQUITY (DEFICIT)	1,016,387	(2,017)	4,905
TOTAL LIABILITIES AND FUND EQUITY (DEFICIT)	\$ 1,067,531	\$ 64,258	\$ 14,212

See accompanying notes to general purpose financial statements.

<u>Fiduciary Fund Type</u>	<u>Account Groups</u>		
<u>Agency Funds</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	<u>Totals (Memorandum Only)</u>
\$ 3,987	\$ -	\$ -	\$ 869,472
-	-	-	204,805
-	-	-	28,275
-	-	-	9,431
-	266,982	-	266,982
-	-	-	38,005
-	-	42,000	42,000
<u>\$ 3,987</u>	<u>\$ 266,982</u>	<u>\$ 42,000</u>	<u>\$ 1,458,970</u>
\$ -	\$ -	\$ -	\$ 5,675
-	-	-	7,763
-	-	-	1,706
-	-	-	64,275
124	-	-	9,431
701	-	-	701
3,157	-	-	3,157
-	-	42,000	42,000
5	-	-	38,005
3,987	-0-	42,000	172,713
-	266,982	-	266,982
-	-	-	38,976
-	-	-	38,005
-	-	-	(2,017)
-	-	-	4,905
-	-	-	107,565
-	-	-	831,841
-0-	266,982	-0-	1,286,257
<u>\$ 3,987</u>	<u>\$ 266,982</u>	<u>\$ 42,000</u>	<u>\$ 1,458,970</u>

Township of Chippewa

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

	General	Debt Service (1993 G.O. Bonds)	Capital Projects (Sanders Subdivision)	Totals (Memorandum Only)
REVENUES				
Taxes	\$ 64,072	\$ -	\$ -	\$ 64,072
Licenses and permits	1,505	-	-	1,505
Intergovernmental	339,732	-	-	339,732
Charges for services	15,893	-	-	15,893
Interest	6,925	-	455	7,380
Special assessments	-	8,033	-	8,033
Other	134,502	-	-	134,502
TOTAL REVENUES	562,629	8,033	455	571,117
EXPENDITURES				
General government	176,436	-	-	176,436
Public safety	86,244	-	-	86,244
Public works	136,163	-	-	136,163
Community and economic development	29,089	-	-	29,089
Other	104,818	-	-	104,818
TOTAL EXPENDITURES	532,750	-0-	-0-	532,750
EXCESS OF REVENUES OVER EXPENDITURES	29,879	8,033	455	38,367
Fund balances (deficit), beginning of year	986,508	(10,050)	4,450	980,908
Fund balances (deficit), end of year	<u>\$1,016,387</u>	<u>\$ (2,017)</u>	<u>\$ 4,905</u>	<u>\$ 1,019,275</u>

See accompanying notes to general purpose financial statements.

Township of Chippewa

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

Year Ended March 31, 2004

	General Fund		
	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 60,300	\$ 64,072	\$ 3,772
Licenses and permits	1,100	1,505	405
Intergovernmental - State	240,000	339,732	99,732
Charges for services	13,000	15,893	2,893
Interest	10,000	6,925	(3,075)
Other revenue	261,000	134,502	(126,498)
TOTAL REVENUES	585,400	562,629	(22,771)
EXPENDITURES			
General government	220,880	176,436	44,444
Public safety	89,000	86,244	2,756
Public works	156,575	136,163	20,412
Community and economic development	32,100	29,089	3,011
Other	189,200	104,818	84,382
TOTAL EXPENDITURES	687,755	532,750	155,005
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(102,355)	29,879	132,234
Fund balance, beginning of year	986,508	986,508	-0-
Fund balance, end of year	<u>\$ 884,153</u>	<u>\$ 1,016,387</u>	<u>\$ 132,234</u>

See accompanying notes to general purpose financial statements.

Township of Chippewa

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS, FUND TYPES, AND ACCOUNT GROUPS

Chippewa Township, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Isabella County. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two trustees, and provides services in many areas including fire protection, roads, and planning.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5; these financial statements present all financial activities of the Township of Chippewa. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the general purpose financial statements of Chippewa Township contain all the funds and account groups controlled by the Township Board.

2. Joint Venture

The Township participates in the following activities which are considered to be jointly governed organizations in relation to the Township, due to there being no ongoing financial interest or responsibility.

Shepherd Tri-Township Fire Department - The Township of Chippewa, in conjunction with the Townships of Coe and Lincoln, and the Village of Shepherd, has entered into an agreement to provide fire services by creating the Shepherd Tri-Township Fire Department.

Each unit names two members and one alternate from its governing body to serve as the Fire Department's Advisory Board. The Advisory Board has responsibility for adopting an annual budget. Under the arrangement, each unit bears its share of the Fire Department's direct labor costs for fire runs within its boundaries and other costs according to a formula which takes the ratio of population and State Equalized Valuation which each unit involved bears to the total population and State Equalized Valuation of all units involved, and averages the two. The percentages of responsibility for other costs for the year ended November 30, 2003, for the Townships of Chippewa, Coe, and Lincoln and the Village of Shepherd were 44%, 19%, 22%, and 15%, respectively. Annual contributions are made by each unit based upon the budget. The Township paid \$86,244 for operating expenditures, wage reimbursement, and mileage for the year ended March 31, 2004.

The financial activities of the Shepherd Tri-Township Fire Department are accounted for and reported separately from the participating units. Separate audited financial statements for their year ended November 30, 2003, are available from the Department. As of November 30, 2003, the Department had a fund balance of \$151,894 and General Fixed Assets of \$1,787,340.

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS, FUND TYPES, AND ACCOUNT GROUPS - CONTINUED

3. Basis of Presentation

The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds and account groups reported in the financial statements are categorized and described as follows:

GOVERNMENTAL FUNDS

- a. General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Debt Service Fund (1993 G.O. Bonds) - The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs.
- c. Capital Projects Fund (Sanders Subdivision) - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital projects. Financing and construction of road improvements paid for by special assessments levied against benefited properties are included in this fund.

FIDUCIARY FUNDS

- a. Agency Funds (Current Tax Collections, Trust and Agency) - The Agency Funds are used to account for assets held by the Township as an agent for individuals, other organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

ACCOUNT GROUPS

- a. General Fixed Assets Account Group - The General Fixed Assets Account Group is used to maintain control and cost information for all fixed assets.
- b. General Long-Term Debt Account Group - The General Long-Term Debt Account Group is used to record the outstanding long-term obligation related to a judgment levied against the Township.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township conform to accounting principles generally accepted in the United States of America as applicable to Townships. The following is a summary of the more significant accounting policies:

1. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus only current assets and current liabilities generally are included on the Balance Sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for agency funds since assets equal liabilities.

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental and agency funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues are generally considered available when they are received in cash (unless legally restricted to some future period) or when earned and expected to be collected soon enough after year end to pay liabilities of the current period. Significant revenues susceptible to accrual include certain intergovernmental revenues and charges for services. Most State intergovernmental revenues (i.e., income taxes, sales taxes), licenses, fines and forfeits, and miscellaneous revenue sources generally are recorded as revenues when received in cash because they are not measurable until actually received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The major exception to this general rule is principal and interest on general long-term debt which is recognized when due.

3. Budgets and Budgetary Accounting

The General Fund budget shown in the financial statements were prepared on a basis consistent with the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a departmental (activity) level for the General Fund through passage of a Board resolution. After the budget is adopted all transfers of budgeted amounts between activities, or any revisions that alter the total expenditures of the fund or activity, must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. Individual amendments were not material to original appropriations that were adopted.

4. Cash and Cash Equivalents

Cash and cash equivalents consist of regular and money market checking and savings accounts. Cash and cash equivalents are recorded at market value.

5. Investments

Investments are recorded at cost, which approximates market value. Investments consist of certificates of deposit with an original maturity of greater than 90 days.

6. Property Tax

The Township of Chippewa bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Property Tax - continued

The property taxes attach as an enforceable lien on property as of December 1. Taxes are levied December 1 and are payable through February 14. All property taxes not paid by February 14 are deemed delinquent. Delinquent real property taxes are turned over to the Isabella County Treasurer on March 1. The Isabella County Treasurer remits payment to the Township on all delinquent real property taxes. The Township then remits these delinquent payments to the applicable units. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service and additional amounts for debt service. For the year ended March 31, 2004, the Township levied 0.9761 mills per \$1,000 of assessed valuation for general governmental services. The total taxable value for the 2003 levy for property within the Township was \$64,944,780.

7. Advances to Other Funds

Long-term advances from some funds to other funds are made to finance new activities during their initial operations and to maintain balances in funds during periods of inactivity. The applicable fund balance is reserved for such advances to reflect the amount of fund balance not currently available for expenditure.

8. Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets (expendable available financial resources) and current liabilities (those expected to be liquidated with expendable financial resources) are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources".

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group rather than in governmental funds. The general fixed assets are recorded as expenditures at the time of purchase in the governmental fund types. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings including roads, bridges, streets and sidewalks, and drainage systems are not capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical costs if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

9. Comparative Data

Comparative data for the General Fund for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in financial position and operations. However, comparative data has not been presented in each of the statements since their inclusion would make the statements unusually complex and difficult to read.

Township of Chippewa

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Columns on Combined Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present assets, liabilities, and fund balance, and revenues, expenditures, and changes in fund balance in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE C: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

The Township's cash, cash equivalents, and investments at March 31, 2004, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash		
Regular and money market checking accounts	\$ 717,001	\$ 717,277
Savings accounts	152,396	152,396
Certificate of deposits	<u>204,805</u>	<u>204,805</u>
	<u>\$ 1,074,202</u>	<u>\$ 1,074,478</u>

Township of Chippewa

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE C: CASH AND CASH EQUIVALENTS - CONTINUED

The cash and cash equivalents caption on the combined balance sheet include \$75 in imprest cash.

Deposits of the Township are at federally insured banks located in the State of Michigan, with all accounts maintained in the name of the Township. As of March 31, 2004, the Township accounts were insured by the FDIC for \$445,453 and the amount of \$629,025 was uninsured and uncollateralized.

Due to significantly higher cash flows at certain periods during the year, the amount the Township held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet based upon criteria disclosed in Note B. The following summarizes the categorization of these amounts as of March 31, 2004:

Cash and cash equivalents	\$ 869,472
Investments	<u>204,805</u>
	<u>\$ 1,074,277</u>

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at March 31, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General		Capital Projects Funds	
Capital Projects		Sanders Subdivision	
Sanders Subdivision	\$ 9,307	General	\$ 9,307
Trust and Agency		Trust and Agency	
Current Tax Collections	103	Current Tax Collections	
Trust and Agency	<u>21</u>	General	103
	<u>124</u>	Trust and Agency	
		General	<u>21</u>
			<u>124</u>
	<u>\$ 9,431</u>		<u>\$ 9,431</u>

NOTE E: ADVANCES RECEIVABLE AND PAYABLE

The following schedule details advances receivable and payable at March 31, 2004:

<u>Fund</u>	<u>Advance To</u>	<u>Fund</u>	<u>Advance From</u>
General		Debt Service	
Debt Service		1993 G.O. Bonds	
1993 G.O. Bonds	\$ 38,000	General	\$ 38,000
Trust and Agency		Trust and Agency	
Current Tax Collections	<u>5</u>	Current Tax Collections	
		General	<u>5</u>
	<u>\$ 38,005</u>		<u>\$ 38,005</u>

Township of Chippewa

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE F: GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Restated Balance <u>Apr. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Mar. 31, 2004</u>
Land	\$ 17,511	\$ -	\$ -	\$ 17,511
Land improvements	30,884	-	-	30,884
Building and improvements	141,500	-	-	141,500
Equipment	<u>73,100</u>	<u>3,987</u>	<u>-</u>	<u>77,087</u>
	<u>\$ 262,995</u>	<u>\$ 3,987</u>	<u>\$ -0-</u>	<u>\$ 266,982</u>

NOTE G: LONG-TERM DEBT

The Township has been involved in a legal matter in which the courts have ruled against the Township in the amount of \$42,000. The Township's insurance policy contains no coverage for the situation in question. A Claim of Appeal has been filed. This amount is shown in the general purpose financial statements as other accrued liabilities in the general long-term debt account group, as the Township does not expect to pay this liability within the next fiscal year.

NOTE H: RETIREMENT PLAN

The Township of Chippewa is the sponsor of a retirement plan for the sole benefit of its employees. The Township of Chippewa Pension Plan is a money purchase defined contribution pension benefit plan. During the year ended March 31, 2004, the Township of Chippewa was required to contribute for all eligible employees at a minimum rate of 15% of wages.

For the year ended March 31, 2004, the Township had a total payroll of \$97,703. The Township of Chippewa Retirement Plan covered a payroll of \$33,205. The Township made contributions to the retirement plan in the amount of \$7,366.

NOTE I: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balances are used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance that the Township has set aside for specific purposes.

The following are the various fund balance reserves as of March 31, 2004:

General Fund	
Reserved for public safety	\$ 38,976
Reserved for advances to other funds	<u>38,005</u>
	76,981
Debt Service Fund	
Reserved for debt service	<u>(2,017)</u>
	<u>\$ 74,964</u>

Township of Chippewa
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
March 31, 2004

NOTE I: FUND BALANCE RESERVES AND DESIGNATIONS - CONTINUED

The following are the fund balance designations as of March 31, 2004:

General Fund	
Designated for subsequent year's expenditures	\$ 107,565
Capital Projects Fund	
Designated for capital expenditures	<u>4,905</u>
	<u>\$ 112,470</u>

NOTE J: FUND DEFICIT

The 1993 G.O. Bonds (Debt Service) Fund had a fund equity deficit at March 31, 2004 of \$2,017.

NOTE K: RISK MANAGEMENT

The Township is exposed to various risks of loss for workers' compensation claims for which the Township carries commercial insurance.

The Township also participates in a pool, the Michigan Township Participating Plan, with other municipalities for auto, in-land marine, errors and omissions, crime, employee bonding, property and liability losses. The pool is organized under Public Act 138 of 1982, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

NOTE L: CONTINGENT LIABILITIES

The Township is currently involved in litigation but due to the inconclusive nature of the action, it is not possible for legal counsel to determine the probable outcome of the case. Legal counsel could not estimate the potential loss of this action. Township management considers any potential liability resulting from legal action that would not be covered by insurance or reserves to be immaterial.

NOTE M: RELATED PARTY TRANSACTIONS

The Township engages in business transactions with two vendors, Grim Printing and Grim Enterprises, which are owned and operated by the Township supervisor. These transactions are made in the normal course of business and amounted to \$1,341 for the year ended March 31, 2004.

Township of Chippewa

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE N: GASB STATEMENT NO. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement). Certain of the significant changes in the Statement include the following:

For the first time the financial statements will include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Township's activities, including reporting infrastructure assets (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

The general provisions of GASB Statement No. 34 must be implemented by Chippewa Township no later than the fiscal year ending March 31, 2005; the retroactive reporting of infrastructures, if any, must be implemented no later than the year ending March 31, 2009.

SUPPLEMENTAL FINANCIAL INFORMATION

Township of Chippewa

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL

Year Ended March 31, 2004

With Actual Amounts for Year Ended March 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
REVENUES				
Taxes				
Current tax levy	\$ 59,000	\$ 63,337	\$ 4,337	\$ 61,478
Delinquent personal property tax	500	25	(475)	-
Penalties and interest	100	-	(100)	-
Trailer park taxes	700	710	10	643
Total taxes	60,300	64,072	3,772	62,121
Licenses and permits				
Building/zoning permits	1,100	1,505	405	1,750
Intergovernmental				
State shared revenue	240,000	339,732	99,732	377,640
Charges for services				
Cable franchise fees	7,000	12,053	5,053	9,468
Cemetery lots and grave openings	6,000	3,840	(2,160)	5,282
Total charges for services	13,000	15,893	2,893	14,750
Interest	10,000	6,925	(3,075)	14,845
Other				
Tribal gaming revenue	201,481	125,661	(75,820)	153,877
Miscellaneous	58,519	8,821	(49,698)	3,776
Rebates and refunds	1,000	20	(980)	-
Total other	261,000	134,502	(126,498)	157,653
TOTAL REVENUES	585,400	562,629	(22,771)	628,759

Township of Chippewa

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - CONTINUED

Year Ended March 31, 2004

With Actual Amounts for Year Ended March 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
EXPENDITURES				
General government				
Township board				
Per diem	\$ 7,000	\$ 7,575	\$ (575)	\$ 6,625
Office supplies	1,600	156	1,444	804
Mileage	500	302	198	426
Printing and publishing	500	451	49	525
Membership and dues	1,750	1,617	133	1,613
Education	1,500	1,671	(171)	1,205
Miscellaneous	100	10	90	-
Total legislative	12,950	11,782	1,168	11,198
Supervisor				
Salary	8,210	8,210	-0-	8,210
Deputy supervisor salary	600	-	600	75
Per diem	3,000	2,500	500	2,500
Office supplies	100	-	100	-
Mileage	150	205	(55)	150
Education	1,200	785	415	830
Miscellaneous	50	-	50	-
Total supervisor	13,310	11,700	1,610	11,765
Clerk				
Salary	8,210	8,210	-0-	8,210
Deputy clerk salary	7,500	6,825	675	7,403
Per diem	3,000	2,875	125	2,750
Office supplies	1,000	984	16	1,029
Mileage	500	360	140	314
Education	1,000	1,235	(235)	673
Computer and software	1,500	976	524	1,376
Miscellaneous	50	-	50	-
Total clerk	22,760	21,465	1,295	21,755
Board of review				
Per diem	1,900	1,250	650	1,625
Mileage	50	-	50	-
Printing and publishing	200	546	(346)	280
Education	250	-	250	-
Other	600	-	600	-
Total board of review	3,000	1,796	1,204	1,905

Township of Chippewa

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - CONTINUED

Year Ended March 31, 2004

With Actual Amounts for Year Ended March 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
EXPENDITURES - CONTINUED				
General government - continued				
Treasurer				
Salary	\$ 9,210	\$ 9,210	\$ -0-	\$ 8,210
Deputy treasurer salary	3,000	1,070	1,930	380
Per diem	2,050	1,375	675	1,375
Office supplies	5,000	1,284	3,716	2,234
Mileage	500	53	447	83
Printing and publishing	250	1,106	(856)	-
Education	1,000	788	212	950
Computer and software	1,500	2,934	(1,434)	400
Miscellaneous	50	15	35	15
Total treasurer	22,560	17,835	4,725	13,647
Assessor				
Contracted services	32,000	20,512	11,488	30,850
Office supplies	1,350	790	560	752
Printing and publishing	100	-	100	-
Computer and software	550	2,768	(2,218)	575
Total assessor	34,000	24,070	9,930	32,177
Elections				
Salaries	1,000	-	1,000	3,500
Contracted services	300	-	300	1,402
Office supplies	300	9	291	120
Mileage	150	-	150	-
Printing and publishing	100	-	100	-
Education and training	100	-	100	-
Computer and software	100	-	100	-
Miscellaneous	150	-	150	89
Total elections	2,200	9	2,191	5,111

Township of Chippewa

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - CONTINUED

Year Ended March 31, 2004

With Actual Amounts for Year Ended March 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
EXPENDITURES - CONTINUED				
General government - continued				
Township hall				
Contracted services	\$ 3,000	\$ 873	\$ 2,127	\$ 1,887
Operational supplies	100	234	(134)	18
Utilities	4,600	5,027	(427)	4,191
Repairs & maintenance	500	521	(21)	70
Capital outlay	5,000	-	5,000	-
Miscellaneous	50	2	48	161
Total township hall	13,250	6,657	6,593	6,327
Cemetery				
Salaries	21,000	26,074	(5,074)	22,121
Contracted services	72,000	52,449	19,551	950
Operational supplies	2,600	1,925	675	1,978
Repairs and maintenance	700	674	26	1,356
Capital outlay	-	-	-0-	70
Miscellaneous	550	-	550	-
Total cemetery	96,850	81,122	15,728	26,475
Total general government	220,880	176,436	44,444	130,360
Public safety				
Fire department				
Fire board per diem	1,500	1,250	250	1,500
Operating expenditures - Township share	85,000	84,959	41	77,236
Mileage	100	35	65	44
Repairs and maintenance	100	-	100	45
Capital outlay	1,300	-	1,300	-
Building improvement	1,000	-	1,000	-
Total public safety	89,000	86,244	2,756	78,825
Public works				
Street lights	8,000	5,790	2,210	5,781

Township of Chippewa

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - CONTINUED

Year Ended March 31, 2004
With Actual Amounts for Year Ended March 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
EXPENDITURES - CONTINUED				
Public works - continued				
Highways, streets, and bridges				
Per diem	\$ 500	\$ -	\$ 500	\$ -
Repairs and maintenance	127,200	126,506	694	10,341
Miscellaneous	875	250	625	-
Total highways, streets, and bridges	128,575	126,756	1,819	10,341
Drains				
Drains at large	20,000	3,617	16,383	11,085
Total public works	156,575	136,163	20,412	27,207
Community and economic development				
Zoning commission				
Salary	8,500	8,355	145	6,630
Per diem	2,100	2,400	(300)	2,160
Office supplies	600	738	(138)	1,954
Mileage	1,300	1,200	100	903
Printing and publishing	1,700	1,296	404	1,178
Education & training	500	60	440	-
Total zoning commission	14,700	14,049	651	12,825
Planning commission				
Per diem	15,000	12,310	2,690	15,464
Contracted services	-	-	-0-	250
Office supplies	200	76	124	22
Mileage	250	-	250	-
Printing and publishing	1,000	2,199	(1,199)	972
Education and training	650	420	230	-
Membership and dues	300	35	265	-
Total planning commission	17,400	15,040	2,360	16,708
Total community and economic development	32,100	29,089	3,011	29,533

Township of Chippewa

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - CONTINUED

Year Ended March 31, 2004

With Actual Amounts for Year Ended March 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
EXPENDITURES - CONTINUED				
Other				
Pension plan contributions and fees	\$ 8,500	\$ 7,366	\$ 1,134	\$ 7,115
Social security	5,000	4,808	192	4,677
Professional fees	14,600	9,931	4,669	13,997
Insurance	10,600	8,533	2,067	6,075
Hydrogeological assessment	150,000	74,180	75,820	39,820
Other	500	-	500	-
Total other	189,200	104,818	84,382	71,684
TOTAL EXPENDITURES	687,755	532,750	155,005	337,609
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(102,355)	29,879	132,234	291,150
Fund balance, beginning of year	986,508	986,508	-0-	695,358
Fund balance, end of year	<u>\$ 884,153</u>	<u>\$ 1,016,387</u>	<u>\$ 132,234</u>	<u>\$ 986,508</u>

Township of Chippewa
Trust and Agency Funds
COMBINING BALANCE SHEET
March 31, 2004

	Agency Funds		
	Trust and Agency	Current Tax Collections	Total
ASSETS			
Cash	\$ 727	\$ 3,260	\$ 3,987
LIABILITIES			
Due to other funds	\$ 21	\$ 103	\$ 124
Due to State	701	-	701
Due to individuals and agencies	-	3,157	3,157
Advances from other funds	5	-	5
TOTAL LIABILITIES	\$ 727	\$ 3,260	\$ 3,987

Township of Chippewa

Agency Funds

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Year Ended March 31, 2004

	Balance Apr. 1, 2003	Additions	Deductions	Balance Mar. 31, 2004
	<u>Trust and Agency</u>			
ASSETS				
Cash	\$ 751	\$ 25,999	\$ 26,023	727
LIABILITIES				
Advances from other funds	\$ 5	\$ -	\$ -	\$ 5
Due to other funds	21	710	710	21
Due to other governmental units				
County	-0-	3,550	3,550	-0-
State	725	3,081	3,105	701
Federal	-0-	18,658	18,658	-0-
TOTAL LIABILITIES	\$ 751	\$ 25,999	\$ 26,023	\$ 727

	<u>Current Tax Collections Fund</u>			
ASSETS				
Cash	\$ 1,677	\$ 1,945,815	\$ 1,944,232	\$ 3,260
LIABILITIES				
Due to other governmental units				
Shepard Schools	\$ -0-	\$ 345,052	\$ 345,052	\$ -0-
Mt. Pleasant Schools	-0-	355,670	355,670	-0-
Isabella County				
Transportation Commission	-0-	42,205	42,205	-0-
District Library	-0-	38,998	38,998	-0-
County				
State Education tax	-0-	324,719	324,719	-0-
Gratiot-Isabella RESD	-0-	279,648	279,648	-0-
Other	-0-	420,182	420,182	-0-
Due to other funds				
General	168	68,620	68,685	103
Debt Service Fund	-0-	4,247	4,247	-0-
Due to individuals and agencies	1,509	66,474	64,826	3,157
TOTAL LIABILITIES	\$ 1,677	\$ 1,945,815	\$ 1,944,232	\$ 3,260

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
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Public Accountants
and
Michigan Association of
Certified Public
Accountants

REPORT ON THE INTERNAL CONTROL STRUCTURE

To the Members of the Township Board
Township of Chippewa
Mt. Pleasant, Michigan

We have audited the general purpose financial statements of the Township of Chippewa, Michigan as of and for the year ended March 31, 2004 and have issued our report thereon dated May 4, 2004.

In planning and performing our audit of the general purpose financial statements of the Township of Chippewa for the year ended March 31, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of the Township of Chippewa is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of combined financial statements in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted the following reportable conditions.

FUND DEFICIT

During the course of our audit, the Township had one (1) fund, 1993 G.O. Bonds (Debt Service) Fund, which ended the year in a deficit financial position. As a result, the Township will be required to submit a deficit elimination plan to the State of Michigan for this fund. This comment was noted and reported in our prior year comments.

We recommend the Township review the status of individual funds near year-end and make appropriate adjustments when possible to eliminate deficits.

PAYROLL RECORDS

During the course of our audit, we noted that one employee of the Township was being compensated for hours actually worked by a relative. The hours worked by the relative were inappropriately recorded on the timesheet of the employee.

We recommend that the Township not approve payroll disbursements that are supported by timesheets that are known to be inaccurate. We also recommend the Township consider correcting the inaccurate payroll information knowingly reported to the Internal Revenue Service.

SEGREGATION OF DUTIES

During our consideration and assessment of fraud risk, we noted that the Township may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

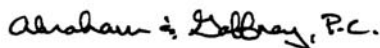
While this is a common occurrence in small organizations due to the limited number of employees, the Township Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We recommend that the Township review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend the Township Board provide a greater review and supervision of employee functions and procedures.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable conditions described above are not believed to be material weaknesses.

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

This report is intended solely for the information and use of management and the Members of the Township Board of the Township of Chippewa and is not intended to be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 4, 2004